Exhibit W

Modern Healthcare

Hospitals play into hands of vendors who try to break group contracts

By Esther Kuntz

Hospitals are playing into intravenous solution manufacturers' hands as the suppliers try to break up committed volume group contracts.

Committed volume contracts are becoming a major threat to vendors as more groups sign these agreements. But some hospitals are jeopardizing their potential long-run advantage in contract negotiations by joining groups to get prices down and then using these prices to get better offers from their current vendors. This is exactly what suppliers want, because once a group contract is broken, they can jack prices up again.

Baxter Travenol Laboratories Inc., Deerfield, IL, is "doing everything possible to destroy" Joint Purchasing Corp.'s committed volume contract with Abbott Laboratories, North Chicago, IL, said Barry Novich, vice president of the New York City group.

After the group awarded Abbott the contract, Baxter reminded one of the hospitals that their contract has two years to run, a hospital official said. "Don't you think it would be appropriate for us to have a chance to meet the competition?" the Baxter representative asked.

Baxter has approached other group members in the same way, Mr. Novich said. As far as he knows, none of the other suppliers have done so. McGaw Laboratories, Irvine, CA, a division of American Hospital Supply Corp., made counter offers to two hospitals, he said, but only after the hospitals requested them.

Baxter denies initiating negotiations with JPC members after Abbott got the contract. A spokesman said the hospitals invited counter offers and that it doesn't regard such hospitals as committed to a group contract.

If committed volume I.V. contracts take hold, vendors will win or lose big

When asked why Baxter didn't make its best offer to the group, a company official replied, "When you take bids [as the group did] you get what you're offered, and when you negotiate [as individual hospitals are] you get what you want." He also claimed that JPC didn't award the contract to the lowest bidder.

Abbott was by far the lowest bidder on most items (see chart), Mr. Novich declared. Baxter came in with lower prices on only a few items, including some basic administration sets.

Baxter has one JPC hospital backed into a corner. Shortly after the gro awarded the $6-million-a-year contra to Abbott, Baxter representatives v ited the hospital to review its cre standing with the company, Mr. Novi said. The hospital fears that Baxter, major creditor, will sue the instituti for outstanding debt and put it out business if it switches to Abbott.

There is "no substance to that co cern," Baxter says. But the hospi just told JPC unofficially that it dropping out of the contract.

Baxter is making it even easier f the hospital to continue doing busine with it by offering to meet Abbo bid, which wo save the hospi $125,000 per ye according to M Novich.

Despite su tactics, Baxter won't succeed in bre ing the group agreement as it did wh the Southeast Louisiana Hospital Se ice Corp., New Orleans, tried to ne tiate an I.V. contract a year ago (M June 1979, p. 12-13; Dec. 1979, p. 2 Mr. Novich believes.

"Those hospitals with integrity w stay with the group," he predict Every group member agreed to acc either Abbott or Baxter, depending who offered the best deal. McG Laboratories and Cutter Laborator Berkeley, CA, also bid on the contra

"If we can get two or three k institutions to sign the agreement, will be able to convince the rest join," Mr. Novich said. Many of the

Bids on JPC I.V. contract

High volume plastic items	Abbott	Baxter Traven
	(per case of 12)	
5% dextrose in water (1000 ml)	$ 9.62	$11.22
5% dextrose in water injection (500 ml)	$ 7.72	$ 9.00
5% dextrose in water normal saline (1000 ml)	$10.43	$12.12
5% dextrose in water half normal saline (1000 ml)	$10.43	$12.12
Normal saline (1000 ml)	$ 8.81	$10.32

MODERN HEALTHCARE chart/July 1

JPC's vice president Barry Novich

ospitals and 11 nu riginally committe ave signed it, inclu als currently suppli The rest want as will sign, because fo he contract loses, t n all discounts. I participate, the grou 0% discount off cur olutions and at leas ration sets. Two ho

Management

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By Vince DiPaolo
Managing Editor

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Philadelphia-base that former Affiliate P. Van resigned to ness. He will serve Affiliates, the nati operator of acute c tals. Jack R. Ande Group president an man, said Mr. Va because of disagr them about Affi philosophy. Also, M "I am not an easy gu Anderson declined f Mr. Van's departure. ates will honor the t left on Mr. Van's fiv

Mr. Van declined say "I'm proud of dramatic profit and under my directio Affiliates acknowled revenues have trip became president i

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hospitals and 11 nursing homes that originally committed to the contract have signed it, including several hospitals currently supplied by Baxter.

The rest want assurance that more will sign, because for every 1,000 beds the contract loses, the group loses 1% on all discounts. If all 17,000 beds participate, the group will get about an 80% discount off current list prices for solutions and at least 50% off administration sets. Two hospitals outside the group have asked to sign the contract, which will make up for beds that drop out. JPC is also opening the agreement to other hospitals that want to join.

This particular contract is a real threat to I.V. manufacturers, according to W. Robert Friedman Jr., Montgomery Securities, San Francisco. Some of the most prestigious medical centers in the country are members of the group. Mount Sinai Medical Center, Montefiore Hospital and Lenox Hill Hospital evaluated products from all four suppliers and found many of them to be similar.

When major medical centers confirm that most I.V. products are generic, suppliers lose hospital loyalty to their products. They have only price to compete with. Nevertheless, hospitals have a tendency to stick with current suppliers to avoid retraining staffs to use different products, if they can get

Continued on page 16

Management

George Van quits Affiliates; Buncher hired to stem management turnover

By Vince DiPaolo
Managing Editor

INA Corp. last month named James E. Buncher president of its Hospital Affiliates International Inc., a subsidiary of the insurance holding company's INA Health Care Group. Formerly president of INA Healthplan Inc., another subsidiary of the INA Health Care Group, Mr. Buncher was brought in following a heavy turnover in Nashville-based Affiliates' senior management during the past 18 months.

Philadelphia-based INA announced that former Affiliates president George P. Van resigned to pursue other business. He will serve as a consultant to Affiliates, the nation's second largest operator of acute care general hospitals. Jack R. Anderson, INA Health Group president and Affiliates' chairman, said Mr. Van resigned partly because of disagreements between them about Affiliates' operating philosophy. Also, Mr. Anderson added "I am not an easy guy to work for." Mr. Anderson declined further comment on Mr. Van's departure. Sources say Affiliates will honor the two-and-a-half years left on Mr. Van's five-year contract.

Mr. Van declined comment except to say "I'm proud of Affiliates' record of dramatic profit and revenue increases under my direction." Sources inside Affiliates acknowledge that profits and revenues have tripled since Mr. Van became president in 1977.

Former and current Affiliates' executives believe a clash between the two executives' management styles was a major reason for Mr. Van leaving. Mr. Van tried to implement a team management approach and was often at odds with Mr. Anderson's individual style of management. The differences in the two executives' management styles and business orientation often slowed the decision making process, leading many frustrated senior executives to seek work elsewhere.

Mr. Buncher, who has worked for

George P. Van (above) resigned after repeated clashes between his management style and that of Jack R. Anderson

Relations should be smoother between James E. Buncher (above) and Mr. Anderson who have closer management styles

Affiliates and INA for six years, is highly regarded by both current and former Affiliates executives. They believe that because his management style is closer to Mr. Anderson's, executive decision making will be smoother and faster and the company's direction and operating philosophy will be better articulated.

Mr. Buncher, 43, hopes to reduce turnover and improve job satisfaction by giving regional division managers greater decision making powers. One reason for the large recent turnover, Mr. Buncher believes, is that regional managers had been reduced to carrying information to and from corporate management. "There were too many committees too far removed from problems that were making decisions by majority rule," Mr. Buncher said.

Mr. Buncher worked for Abbott Labs and SCM Corp. prior to joining Affiliates. He says he will try to reconcile the conflicts between the freedom needed to maximize performance of entrepreneurial managers and needed management controls.

Some former executives cite top management's lack of decisiveness and the company's general lack of direction as their reasons for leaving. Said one,

Continued on page 18

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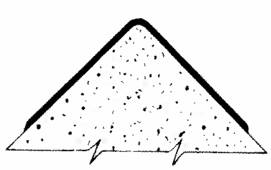

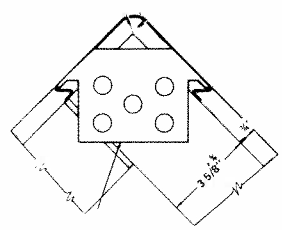

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Purchasing

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prices down far enough.

Baxter stands to lose its busine with nine hospitals and three lon term care facilities if the JPC contra goes through. (Most of the other facil ties currently use Abbott products And the vendor will have to wait a lo time for a chance to get that busine back. The contract is for four-and- half years instead of the standard tw or three.

I.V. vendors are playing for keep these days because if committed vo ume contracts take hold there will b big winners and big losers. Instead losing one hospital's business, a losin bidder may lose all its business in a area.

Vendors are testing hospital group said John Giampolo, director of th New Jersey Hospital Assn.'s purcha ing program. Abbott, Baxter an McGaw each have a group purchasin contracts manager whose job is t evaluate purchasing groups for mem ber loyalty, he affirmed. I.V. manufa turers bid accordingly.

Baxter didn't bid aggressively on committed volume I.V. contract NJH awarded to Abbott two years ago. Bu because 43 hospitals stuck with th group, Baxter took them seriously an came back to win a committed volum amino acids contract this year. The 5 hospitals that committed to the ne contract are getting discounts betwee 60% and 70% on the protein supple ments.

If hospitals stick by their purchasin groups, they will achieve lower I.V pricing for the long-term. But the temptation to take the best price now is strong. A hospital that has already saved $3,000 by working through a group has to weigh whether going outside the group and saving another $800 is worth higher prices in the long run, Mr. Giampolo said.

After all, if a group hadn't brought prices down in the first place, other suppliers wouldn't make a lower offer, said Gene P. Abel, vice-chairman, Hospital Purchasing Service of Philadelphia, PA. Prices can only go up again if hospitals renege on their commitment to a group.

The JPC contract is unusual in that individual hospitals can get an additional discount below the group price on key items of their choice. These products could represent the majority of a hospital's volume, Mr. Novich said.

The contract prohibits price increases for the first 18 months and limits price hikes for the remainder of the contract. ■

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